

## **Exhibit B**

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2 projections of staff. Then as I was  
3 familiarizing myself with the position, I was  
4 asking to see long-term forecasts, capital  
5 expenditure needs, and assessing from my  
6 perspective where the gaps were, where the  
7 shortfalls were, and what was happening to our  
8 revenue projections.

9 So it started, I would say, the  
10 beginning of 2011, which is the first quarter,  
11 more towards the end of the first quarter  
12 where I was really focusing on getting up to  
13 speed on the revenues, the forecast, the  
14 capacity.

15 Q As far as you know, before you  
16 became CFO, had the prior CFO examined the  
17 issue of whether a toll increase was needed  
18 for The Port Authority?

19 A I can't answer specifically yes or  
20 no to that, but I can tell you that that CFO  
21 was involved in the prior one, so that is part  
22 of the analytical process that any CFO would  
23 go through all the time because, once again,  
24 long-term view, capacity, spending, and where  
25 your revenue sources are coming in from all

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2 your line businesses. So you're looking once  
3 again at total Port Authority, total capacity,  
4 and then where your revenue sources are, and  
5 recognizing that the ITN, from our  
6 perspective, has always been a drag on The  
7 Port Authority, has always lagged behind,  
8 their revenues generated versus the needs of  
9 the ITN.

10 So that is always in our forefront  
11 of thoughts of, okay, is this toll appropriate  
12 for the level of investment we're making in  
13 those facilities. So, I mean, we're always  
14 thinking that to the degree we increase tolls,  
15 then we're reducing the drag of the ITN on the  
16 other facilities. I mean, it's a deficit  
17 business.

18 Q When you were going through the  
19 process you described in examining the numbers  
20 and looking at whether a toll increase was  
21 needed, were you looking at the financial  
22 projections and financial data for the entire  
23 Port Authority?

24 A Yes.

25 Q During that process, were you

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2 looking at the line departments that comprise  
3 the ITN in isolation to see if a toll increase  
4 was necessary?

5 A No.

6 Q In the time that you have been  
7 comptroller or CFO, you said the ITN has  
8 always been a drag.

9 A Uh-huh.

10 Q Can you describe, what does that  
11 mean?

12 A For us, that the revenues  
13 generated after paying operating expenses and  
14 the capital requirements and the investments  
15 needed in the ITN facilities do not generate  
16 excess revenues to be used elsewhere along The  
17 Port Authority. It's not a cash cow, from our  
18 perspective, where we're throwing off cash and  
19 using that cash across the organization.

20 Q Has The Port Authority done  
21 analyses that support what you just described?

22 MR. SOUTHWELL: Object to  
23 the form. You mean other than  
24 what he's just said? What do you  
25 mean by --

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2 Q You've described something, and  
3 what I'm asking is: Has The Port Authority  
4 done analyses that reflect what you've just  
5 described with respect to ITN revenues?

6 A Periodically we look at what's  
7 happened with departments. We don't do it on  
8 a regular basis or anything. But it's always  
9 been known that the toll and fare increases  
10 have always lagged behind the need, and that's  
11 always been what everybody has recognized  
12 because you don't just go and get a toll and  
13 fare increase. It's after periods of  
14 sometimes, sometimes years that it takes you  
15 to get it. So you've already lost years of  
16 buying power from when you really needed the  
17 toll and fare increase to when you actually  
18 get it. But formal reporting and documents  
19 being passed around with here it is, it's a  
20 loss again, is not done.

21 Q When you look at, again in the  
22 context of the ITN being a drag, if you look  
23 at ITN revenues, what are the minuses from ITN  
24 revenues that you're looking at in coming to  
25 the conclusion that it's a drag?

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2 A Yes.

3 Q When was that?

4 A Before -- well, we obviously had  
5 to model it on what the capacity would be, so  
6 it was before the letter when we made the  
7 notice, what was that, August 5th or  
8 something?

9 Q There was a press release on  
10 August 5, 2011.

11 A Right, so probably the week before  
12 that, to begin to run what the models would be  
13 and the structure would be to figure out the  
14 sizing of what we would be able to afford.

15 Q Is it correct that you learned  
16 what the amount of the toll and fare increase  
17 would be shortly before the announcement on  
18 August 5th?

19 A I told you at least a week,  
20 because we were running the number. Once  
21 again, many scenario, what if this, what if  
22 that, and eventually, okay, if we're going to  
23 do this, run the numbers and tell us what the  
24 capacity would be, and it's what we did.

25 Q When you talked about the reasons

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2 for the need for a revenue enhancement, is it  
3 correct that the coverage ratio was an issue  
4 for you?

5 A Long term, yes.

6 Q And the capital ratio, was that  
7 also an issue?

8 A I don't know what the capital  
9 ratio is.

10 Q I thought you had said something  
11 about a capital ratio. Capital ratio, is that  
12 a term that you're familiar with?

13 A No, it's coverage ratio, the 1.3  
14 test.

15 Q What is the coverage ratio for the  
16 1.3 test?

17 A That the future maximum debt  
18 service year, your net revenues available for  
19 debt service have to exceed your future  
20 maximum debt service year by at least 1.3  
21 times before you're eligible to be able to  
22 issue additional bonds for new money purposes.  
23 So in order for them to be able to continue to  
24 access the capital markets, there's an  
25 indicator for us.

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2 Q Where does that come from?

3 A The consolidated bond resolution.

4 Q Are there any other ratios that  
5 were part of your analysis on the need for  
6 revenue enhancement for The Port Authority?

7 A We look at various rating agency  
8 metrics, I don't have them in front of me  
9 right now, but there's three or four metrics  
10 that we know the ratings agencies are  
11 concerned with, one being gross revenues to  
12 total debt outstanding not exceeding five  
13 times, and things like that. So we're aware  
14 of some of the ratios and we always manage to  
15 four or five of them.

16 So when we're doing our analysis,  
17 we see which ones are going to be there over  
18 our ten-year horizon, try to look ten years  
19 all the time, and where we might have pressure  
20 and where ratios may be approaching those  
21 cutoff points or falling below those points.

22 Q Was the cost of the World Trade  
23 Center at all part of the analysis of the need  
24 for revenue enhancement for The Port  
25 Authority?



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2 A Once again, we do things on a  
3 corporate level. So all the revenues are in  
4 there from the whole Port Authority, all the  
5 expenses of the whole Port Authority are in  
6 there, all the capital expenses of the entire  
7 Port Authority are in those numbers, and all  
8 the debt for the entire Port Authority. So  
9 the ratios are built on the entire Port  
10 Authority and not just on individual  
11 facilities or departments.

12 Q Are you at all involved in the  
13 drafting or issuance of press releases for The  
14 Port Authority?

15 A Not really. I look at them for  
16 any obvious flaws, but nothing. I don't write  
17 the press releases.

18 Q Do you at times review a press  
19 release before it's issued for accuracy or for  
20 some other reason?

21 A Periodically, yes.

22 Q During the time period we've been  
23 describing, where you and others within your  
24 department were looking at the need for  
25 revenue enhancement, were there also analyses

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2 MR. SOUTHWELL: Objection.

3 I instruct you not to answer on  
4 the same basis.

5 Q From August 5th, when a  
6 \$33 billion capital plan was announced, to  
7 August 19, 2011, were there discussions within  
8 The Port Authority of how to reduce the  
9 ten-year capital plan?

10 MR. SOUTHWELL: I'm sorry,  
11 can you repeat the question?

12 (Record read.)

13 MR. SOUTHWELL: I'm going  
14 to object to the form. It  
15 mischaracterizes the testimony  
16 with respect to the capital plan.

17 Q You can answer.

18 A I'm not aware of any discussions.  
19 I mean, the toll and fare was proposed, the  
20 size of the capacity envelope was identified,  
21 and that was the end of it. I would not go in  
22 and say, okay, let's start reducing the  
23 capacity envelope or what makes up the  
24 projects that end up in that plan.

25 Q Did you make a presentation to the

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2 board of commissioners on August 19, 2011?

3 A Yes.

4 Q Did you make a presentation in  
5 both an executive session and public session?

6 A Yes.

7 Q Which came first?

8 A Executive session.

9 Q Were you involved in planning what  
10 information would go to the commissioners with  
11 respect to their determination of whether to  
12 approve a toll increase?

13 A When you're talking about  
14 determination, if you mean did I develop with  
15 my staff the slides that supported the toll  
16 and fare increase and the rationale, the  
17 answer is yes, that was created by my  
18 departments for me.

19 Q Do you know, in addition to your  
20 presentation to the commissioners, what  
21 information was presented to them?

22 A I assume this was all the  
23 information presented to them.

24 Q Do you know if anything else was  
25 presented to them?

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2 said was the capacity window.

3 Q Exhibit A is a copy of the  
4 preliminary capital plan for the ITN?

5 A Exhibit A represents the  
6 facilities at a facility level and the dollars  
7 spending by year for the ITN during the period  
8 2011 to 2020.

9 Q And that's the preliminary capital  
10 plan for the ITN for that period?

11 A Yes.

12 Q You did not present a \$10.786  
13 billion preliminary capital plan for the ITN  
14 to the commissioners in August, correct?

15 A Correct. As I mentioned earlier,  
16 this was developed in response to the  
17 affirmations that the toll revenues that were  
18 being collected were in excess of the capital  
19 expenditures and the operating expenses of the  
20 ITN, and this rebuts -- which is our rebuttal  
21 to your litigation.

22 Q Had you ever seen a document like  
23 this prepared within The Port Authority before  
24 you prepared Exhibit A for this affidavit?

25 A No.

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2 MR. SOUTHWELL: I'm sorry,  
3 I want to state an objection just  
4 to the form. When you say like  
5 this, are you referring to a  
6 capital plan? When you say like  
7 this, I guess I want it to be  
8 clear what you mean by that.

9 MR. MULRY: Exhibit A.

10 A A distinct ITN spread.

11 Q Correct.

12 A Right.

13 Can I go back and clarify?

14 Q I'm sorry, you're referring to  
15 Exhibit A?

16 A Exhibit A is an extraction of the  
17 ITN facilities that make up and comprise,  
18 during the same period, what we call the  
19 preliminary \$25 billion plan. So these are  
20 the elements that represent the ITN's  
21 components of that program, or those amounts.

22 Q In effect, would it be correct to  
23 say Exhibit A is a subset of the \$25.1 billion  
24 preliminary capital plan for the entire Port  
25 Authority?

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2 A That would be correct to say.

3 Q If you could go to Exhibit B.

4 A Yes.

5 Q What is Exhibit B?

6 A Exhibit B is designed to show  
7 revenues collected, less expenses, less debt  
8 service payments, less capital paid with cash,  
9 that we actually paid cash for using reserves,  
10 what we call reserves, but it's just other  
11 amounts in the capital fund, and also any debt  
12 service interest payments. So it's designed  
13 to be a cash flow of what happened in 2007 to  
14 2010 in the first column, and then the second  
15 and third columns are both projected financial  
16 data, and what this was an attempt to do was  
17 to say if you try going back to the argument  
18 that the ITN was generating excessive cash,  
19 this shows, the middle column, on a cash basis  
20 that the revenues, and this includes the total  
21 revenues from the toll increase being added in  
22 up top, plus an assumed CPI increase of \$1, I  
23 believe, in 2018 to take effect, less  
24 operating expense, all this is projections now  
25 that we do in budgeting, gives you net

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2 with by the Court, I have no  
3 further questions with you at this  
4 time.

5 MR. SOUTHWELL: I just  
6 have a couple of follow-ups.

7 EXAMINATION BY

8 MR. SOUTHWELL:

9 Q Could you take a look at  
10 Plaintiff's Exhibit 18, it's the press  
11 release, the August 5, 2011 press release.  
12 Directing your attention to the end of the  
13 first paragraph following the bullets, do you  
14 see the line that indicates that proposed a  
15 two-phase toll and fare increase to fully fund  
16 a new \$33 billion 10-year capital plan. Do  
17 you see that?

18 A Yes.

19 Q You were asked some questions  
20 about that during Mr. Mulry's examination. To  
21 be clear, would the toll and fare increase, in  
22 fact, fund \$33 billion of capital projects?

23 A No.

24 Q Could you explain that, please?

25 A Sure. That is incremental revenue

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2 combined with the existing revenues of the  
3 rest of The Port Authority from all sources  
4 that would then be able to flow down to be  
5 able to finance capital. So all the  
6 businesses, aviation, port, TB&T in this case,  
7 PATH, economic development projects such as  
8 the teleport revenues, the sum total of all  
9 those revenues that exist right now, plus the  
10 incremental revenues that would be generated  
11 by this toll and fare increase, combined give  
12 me a capital capacity window over a ten-year  
13 period of \$33 billion agency-wide. It's not  
14 these dollars from this toll and fare  
15 generates \$33 billion capacity. It's the  
16 total Port Authority existing revenue stream,  
17 plus this incremental revenue stream, because  
18 our capacity before this was in the  
19 \$20 billion range and this incrementalizes it.

20 Q You referred to the overall Port  
21 Authority capacity and you were asked various  
22 questions today about the agency's existence  
23 as a pooled revenue agency. Can you explain  
24 why that's important to a financial picture of  
25 The Port Authority?



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2 A Well, since 1931, when the general  
3 bond reserve fund was created, in order to be  
4 able for The Port Authority to finance  
5 facilities and take on new facilities and  
6 projects, they needed to have the revenue of  
7 the combined existing facilities used to  
8 convince the bondholders that there was value  
9 here and, in fact, they would get paid.

10 So it's always been the pooled  
11 revenue concept, that is the sum of the whole,  
12 because many times when a business is starting  
13 up, their revenues aren't going to be there  
14 initially to support it, but it's that concept  
15 of other facilities would support it follow  
16 such time as it was able to be self-  
17 sustaining, potentially, or if not, add to the  
18 mix, recognizing that The Port Authority's  
19 mission isn't just to generate profit, The  
20 Port Authority's mission exists to serve the  
21 public and facilitate transportation, regional  
22 development, as well as the movement of goods  
23 and commerce efficiently throughout this  
24 region, and we are one of the largest  
25 enterprises that do that, I think, in the

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2 world probably, in such a concentrated area.

3 To us, PATH will never make a  
4 dime. In fact, even the airports, which looks  
5 like such money makers now, when they were  
6 initially acquired, did not make money,  
7 LaGuardia and Kennedy. But it was the pooled  
8 agency concept of using all the money from all  
9 the existing facilities that, in fact,  
10 supported our ability to take them on  
11 initially and grow those businesses. In that  
12 case, it panned out.

13 In the case of PATH, it was never  
14 going to pan out. In fact, PATH, for lack of  
15 a better term, was acquired as part of the  
16 reason and the authorization to build the  
17 World Trade Center site. So when that deal  
18 was struck, in order for The Port Authority to  
19 build the original World Trade Center, you  
20 were going to take on the bankrupt H&M  
21 railroad.

22 And it's always been, once again,  
23 not pure business decisions because nobody  
24 would have taken that on, but it's that pooled  
25 revenue concept that allows us to say we can

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2 absorb these kinds of projects and these kinds  
3 of facilities as long as they're part of the  
4 mix.

5 Q And PATH is part of the Interstate  
6 Transportation Network?

7 A Yes.

8 Q Because in part, in bringing  
9 people across the Hudson River without using  
10 the bridges and tunnels?

11 MR. MULRY: Objection to  
12 form.

13 A Okay. PATH is part of the  
14 Interstate Transportation Network because  
15 those of our commutation facilities. The bus  
16 terminals serve the passengers that go back  
17 and forth for business, the automobiles and  
18 the trucks are the business that use the  
19 tunnels and bridges, the ferries are also the  
20 passengers that are going back and forth, and  
21 the PATH is also passenger related. So those  
22 are different than an airport business. This  
23 is strict commutation kind of work, it's  
24 strictly business to business, back and forth  
25 with the trucks delivering. So all of those